

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**AMERICAN WEST INSURANCE COMPANY
FARGO, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2002**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that
I have compared the annexed copy of the Report of Examination of the

American West Insurance Company

Fargo, North Dakota

as of December 31, 2002, with the original on file in this Department and that the same is a
correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this _____ day of
_____, 2003.

Jim Poolman
Commissioner of Insurance

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Fargo, North Dakota
June 3, 2003

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Subcommittee, NAIC
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Honorable Jim Poolman
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Commissioner of Insurance
North Dakota Department of Insurance
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Bismarck, ND 58505-0320

Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

American West Insurance Company
Fargo, North Dakota

American West Insurance Company, hereinafter referred to as the "Company," was last examined as of December 31, 1997, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. This examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 1998, to and including December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The primary focus of this examination was directed on operations and events from March 31, 2001, the date of a change in ownership and management of the Company.

The Company and its ultimate parent, Nodak Mutual Insurance Company (Nodak Mutual), were placed under Administrative Supervision on September 23, 2002, due to management instability and questions related to financial transactions between Nodak Mutual and the North Dakota Farm Bureau. Because of those concerns, the Commissioner requested that a targeted financial examination of the Company and its parent be performed. The targeted financial examination of the Company was conducted in conjunction with this regularly scheduled financial condition examination of the Company. The Examiners also reviewed for compliance with the restrictions placed upon the Company in the Order of Supervision and documented in this report instances of non-compliance we noted during the course of performing our regular audit procedures.

Work papers provided by the Company's independent auditor, Meriwether, Wilson and Company, P.L.C. were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

The Examiners did not review for compliance with the recommendations in the prior examination report given the change in control of the Company during the period under examination.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

HISTORY

General

The Company was incorporated on December 27, 1990, as a stock insurance company and began business under the title American West Insurance Company of North Dakota. Effective July 1, 1991, all of the in-force business and all assets and liabilities of the American West Insurance Company (now known as the Great Divide Insurance Company) were transferred to the Company under a 100% quota share reinsurance and administrative agreement. Concurrently, the name of the Company was changed to the American West Insurance Company.

The Company commenced business with issued capital of \$1,000,000, consisting of 1,000,000 shares of common stock with a par value of one dollar each. The Company issued an additional 1,500,000 shares of common stock in 1994 as authorized by its Articles. The par value of the 2,500,000 shares of issued and outstanding common stock was increased to \$1.20 per share through amendment of its Articles in 1996.

Pursuant to a Transfer and Assumption Agreement, effective March 31, 2001, and approved by the North Dakota Insurance Commissioner, Tri-State Insurance Company, the Company's former parent, assumed all of the Company's insurance business and other non-insurance liabilities in exchange for assets equal to the reserves on Company business. The Company also paid an extraordinary dividend to Tri-State, reducing capital and surplus in the resulting shell company to \$5,001,000.

On March 31, 2001, all of the Company's issued and outstanding shares of common stock were purchased by The Dakota Companies, L.L.C. for \$5,691,000. The Dakota Companies, L.L.C. is

a wholly owned subsidiary of Nodak Mutual Insurance Company, a North Dakota domiciled insurer. The Dakota Companies, L.L.C. obtained funding for the purchase from Community First Bank, Fargo, North Dakota, under a \$8,000,000 unsecured promissory note guaranteed by Nodak Mutual.

On January 2, 2002, the Company received a \$1,000,000 capital contribution from its parent, The Dakota Companies, LLC.

Dividends to Stockholders

During the period under examination, the Company declared and paid an extraordinary dividend to its parent, Tri-State Insurance Company of Minnesota:

<u>Year</u>	<u>Type</u>	<u>Amount</u>
2001	Cash	\$6,611,926

The dividend was approved by the North Dakota Insurance Department.

Board of Directors

The Bylaws provide that the number of Board of Directors shall be not less than 5 and not more than 11. Each director shall hold office until the next annual meeting of stockholders and until his successor shall have been elected and qualified. A regular meeting of the directors shall be held immediately after the annual meeting of the stockholders.

Directors serving at December 31, 2002, were as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
Douglas C. Goehring Menoken, ND	Farming
Eric K. Aasmundstad Devils Lake, ND	Farming
Jerry D. Jeffers Rhame, ND	Farming
Ken R. Lougheed Gardner, ND	Farming
Harold M. Grommesh Fargo, ND	Retired CEO of Nodak Mutual Insurance Company

Officers

The Bylaws provide that the elected officers of the Company shall be a Chairman of the Board of Directors, a President, a Vice President, a Secretary, and a Treasurer. All officers shall be elected by the Board of Directors at their annual meeting. The offices of Chairman of the Board of Directors and President, and the offices of Secretary and Treasurer may be filled by one person.

Officers serving at December 31, 2002 were as follows:

<u>Officer</u>	<u>Title</u>
Douglas C. Goehring	President
Gary H. Duncan	Secretary and Treasurer

The offices of Chairman of the Board of Directors and Vice President were vacant at December 31, 2001.

Conflict of Interest

The Company has an established procedure for the disclosure of conflicts of interest. Once a year, all directors, officers, and key employees are asked to complete and sign a conflict of interest questionnaire. The Examiners reviewed the conflict of interest statements available for the year 2001 and noted no differences. The Company could not locate all of the conflict of interest statements for the year 2001 and none for the year 2002. **It is recommended that the Company's directors, officers, and key employees complete a conflict of interest statement on an annual basis and that the Company retain those statements for inspection for all years subject to examination.**

Articles of Incorporation and Bylaws

The Bylaws and Articles of Incorporation were read by the Examiners. There were no amendments adopted during the period under examination.

Board of Directors and Stockholders

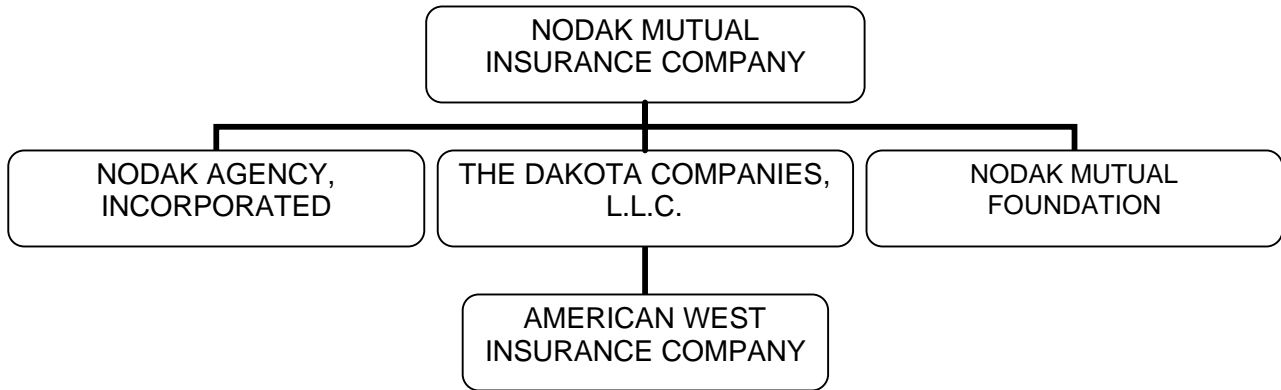
The minutes of the Board of Directors and stockholders meetings from March 31, 2001, were read. The minutes indicate that meetings were well attended and held in accordance with the Bylaws. The following exception was noted:

- Board approval of investment transactions is generally given on a yearly basis. **It is recommended that the Company implement a procedure to provide for authorization of investment transactions by the Board of Directors or by an Investment Committee appointed by the Board of Directors in conformity with N.D. Cent. Code § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.**

AFFILIATED COMPANIES

General

The Company is a member of the following holding company system:



Nodak Mutual Insurance Company (Nodak Mutual) – Nodak Mutual is a North Dakota domiciled insurance company licensed to do business in two states. Nodak Mutual was incorporated on April 15, 1946, and writes primarily personal auto, farmowners, homeowners, crop-hail and multiple peril crop insurance in the State of North Dakota. Nodak Mutual wrote \$72 million of direct business in 2002 and its surplus as regards policyholders was reported in its Annual Statement to be \$24,259,945 at December 31, 2002.

Nodak Agency, Incorporated (NAI) – NAI is a wholly owned subsidiary of Nodak Mutual. It was incorporated in 1970 for the purpose of acting as a general agency to market lines of insurance not sold by Nodak Mutual.

The authorized capital of NAI is \$100,000, consisting of 1,000 shares of common stock with a par value of \$100 per share. At December 31, 2002, 250 shares were issued and outstanding, all of which were owned by Nodak Mutual.

NAI's Board of Directors is comprised of the same board members as that of Nodak Mutual and the North Dakota Farm Bureau.

The common stock of NAI had a book value and fair value of \$350,000 at December 31, 2002.

The Dakota Companies, L.L.C. (Dakota Companies) - Dakota Companies was originally organized in 1998 for general business purposes. It owns 100% of the issued and outstanding shares of the Company and leases assets to Nodak Mutual and NAI for the benefit of their operations.

Dakota Companies financed its acquisition of the Company with a loan from Community First National Bank. On March 31, 2001, Nodak Mutual entered into a guaranty agreement with

Community First National Bank guaranteeing the indebtedness of Dakota Companies up to \$8 million. At December 31, 2002, the balance of the loan was \$6,570,000.

The carrying value of Dakota Companies at December 31, 2002, was \$1,219,929.

Nodak Mutual Foundation – Nodak Mutual Foundation was formed in November 1999 as a wholly owned stock subsidiary of Nodak Mutual for charitable, religious, and/or educational purposes.

AFFILIATED AGREEMENTS

Tax Allocation Agreement

Nodak Mutual and the Company file a consolidated federal income tax return pursuant to a written tax allocation agreement executed on March 7, 2002. Taxes incurred are allocated between the insurers based upon separate return calculations with current credit for net losses. The inter-company tax balances are to be settled annually in the first quarter of the year following the tax year.

Management Service Agreements

Separate and similar Management Service Agreements between Dakota Companies, Nodak Mutual, NAI and the Company were executed in 2001 but have not been implemented as of December 31, 2002. Under the Agreements, the Dakota Companies was to become the employer and paymaster of all employees and agreed to provide executive, managerial, administrative, and human resource services in areas necessary to the business operations of the affiliated companies. Nodak Mutual, NAI, and the Company agreed to provide data processing services, equipment, and other facilities to the Dakota Companies required in connection with its business operations. Since the agreement has not implemented, no payments were made in 2001 or 2002.

In 2001 and 2002, Nodak Mutual processed premium and claim transactions for the Company and provided other administrative services necessary for the Company to transact business. The Company did not reimburse Nodak Mutual in 2001 or 2002 for the cost of the services it received from Nodak Mutual. N.D. Cent. Code § 26.1-10-05(1) requires that transactions between affiliates within a holding company system be fair and reasonable and that expenses incurred be allocated to the insurer in conformity with statutory accounting practices.

It is recommended that the Company and Nodak Mutual enter into a management services agreement and that the terms of the agreement comply with the standards contained in N.D. Cent. Code § 26.1-10-05(1).

FIDELITY BOND AND OTHER INSURANCE

The Company is named insured under bonds issued to the Company's ultimate parent Nodak Mutual. A commercial blanket bond provides \$100,000 coverage for each employee and a blanket position bond provides \$250,000 coverage for the position of Treasurer. The amount of fidelity coverage recommended in the NAIC *Examiners Handbook* is \$700,000 to \$800,000. **It is recommended that the Company increase its fidelity bond coverage to the amount suggested by the NAIC.**

Other insurance coverage covering the Company appeared adequate.

PENSION AND INSURANCE PLANS

The Company has no employees; its functions are performed by employees of Nodak Mutual, the Company's ultimate parent. Nodak Mutual employees receive health care and retirement benefits. The Company made no contribution for the cost of those programs in 2001 and 2002.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2002:

<u>Location</u>	<u>Type of Asset</u>	<u>Statement Value</u>	<u>Fair Value</u>
Idaho	Bond	\$ 246,674	\$ 274,688
Minnesota	Bond	1,002,453	1,005,940
Oregon	Bond	399,335	402,897
North Dakota	Bond	1,087,342	1,140,499

The bonds on deposit with the State of North Dakota were held for the protection of all policyholders.

INSURANCE PRODUCTS AND RELATED PRACTICES

At December 31, 2002, the Company was licensed to transact business in the following states:

Idaho	North Dakota	Washington
Minnesota	Oregon	Wisconsin
Montana	South Dakota	

The Company's business is solicited through approximately 70 exclusive agents and a few independent agents. The Company writes primarily non-standard auto in North Dakota and commercial multi-peril in Minnesota.

One agent produced approximately 75% of the Company's 2002 direct premiums. **It is recommended that the Company make the proper response in the Annual Statement to General Interrogatory No. 4.1 whenever an agent receives commissions for a substantial part (more than 20%) of new or renewal business.**

REINSURANCE

Ceded

The Company ceded reinsurance premiums totaling \$1,198,644 in 2002 and as of December 31, 2002, had loss and loss adjustment expense reserve credits for ceded business totaling \$149,296 and unearned premium reserve credits of \$568,988.

The Company is a named insured along with its direct parent, Nodak Mutual, on the following ceding contracts:

1. Title: Multi-Line Excess of Loss

Reinsurer: American Agricultural Insurance Company

Scope: Fire, allied lines, multi-peril policies, inland marine, and auto

Coverage: Other Property - \$650,000 excess of \$100,000
Farm and Ranch - \$600,000 excess of \$150,000
Liability - \$11,500,000 excess of \$300,000

Premium: Other Property - 3.953%
Farm and Ranch - 3.271%
Liability: Scheduled rates per layer ranged from 3.77% to .02%

Commissions: None

Termination: Either party at any calendar year end by providing not less than 90 days written notice.
2. Title: Umbrella Liability

Reinsurer: American Agricultural Insurance Company

Scope: Liability

Coverage: \$15,000,000 excess of \$1,000,000

Premium: Quota Share

Commissions: 22.5% to 35%

Termination: Either party at any calendar year end by providing not less than 90 days written notice.
3. Title: Occurrence Property and Auto Catastrophe

Reinsurer: American Agricultural Insurance Company

- Scope: Fire, Allied Lines, Farmowners (property perils), Homeowners (property perils), Commercial Multiple Peril (property perils), Inland Marine, Auto Physical Damage, Earthquake
- Coverage: 95% of \$21,052,632 (\$20,000,000) excess of Company's retention which is equal to 5% of subject net earned premiums.
- Premium: 10.416% of subject net earned premium
- Commissions: None
- Termination: Either party at any calendar year end by providing not less than 90 days written notice.
4. Title: Aggregate Property & Auto Catastrophe
- Reinsurer: American Agricultural Insurance Company
- Scope: Fire, Allied Lines, Farmowners (property perils), Homeowners (property perils), Commercial Multiple Peril (property perils), Inland Marine, Auto Physical Damage, Earthquake
- Coverage: Layer 1: 90% of \$2,222,222 (\$2,000,000) excess of Company's retention which is equal to 31% of subject net earned premiums.
Layer 2: 50% of \$3,333,334 (\$1,666,667)
- Premium: 6.314% of subject net earned premium
- Commissions: None
- Termination: Either party at any calendar year end by providing not less than 90 days written notice.
5. Title: Property Surplus Share
- Reinsurer: American Agricultural Insurance Company
- Scope: Fire, Allied Lines, Farmowners (property perils), Homeowners (property perils), Commercial Multiple Peril (property perils), Inland Marine, Auto Physical Damage, Earthquake
- Coverage: The Company cedes risks above a \$750,000 retention to capacity of \$40,000,000.
- Premium: Scheduled
- Commissions: 22.5% commission on the second and third surplus layer.
- Termination: Either party at any calendar year end by providing not less than 90 days written notice.

In 2002, Nodak Mutual, the Company's direct parent, reinsured 90% of the non-standard auto business written by the Company. That business was ceded to Nodak Mutual under a quota share contract with a January 1, 2002, effective date. The agreement also allows the Company to cede other lines of business to its parent in addition to the non-standard auto.

N.D. Cent. Code § 26.1-10-05(2) requires domestic insurance companies to file reinsurance agreements for approval with the Commissioner if that agreement is with another member of the holding company system and the business ceded meets criteria set forth under N.D. Cent. Code § 26.1-10-05(2). The agreement with Nodak Mutual met those tests and should have been reported to the Commissioner. **It is recommended that the Company establish procedures to ensure that the Commissioner is notified in writing whenever proposed transactions with affiliates meet the filing requirements of N.D. Cent. Code § 26.1-10-05(2).**

The Company's reinsurance agreements contain the insolvency clause required by N.D. Cent. Code Chapter 26.1-02-21 and all of the required clauses set forth in the *NAIC's Accounting Practices and Procedures Manual* except for the "entire contract" clause. **It is recommended that the Company amend its reinsurance agreements by adding the "entire contract" clause to all agreements to which the Company is a party.**

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2002, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2002 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to an extent deemed appropriate for this examination.

The Company uses Freedom software for general ledger and accounts payable processing. At December 31, 2002, the Company used Fiserv software to process the non-standard auto business and some transactions involving the multi-peril business written in Minnesota.

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2002
Underwriting and Investment Exhibit, For the Year Ending December 31, 2002
Reconciliation of Capital and Surplus Account, January 1, 1998 through December 31, 2002
Analysis of Examination Changes

American West Insurance Company
Statement of Assets, Liabilities, and Surplus and Other Funds
December 31, 2002

	Assets	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds		\$6,062,516		\$6,062,516
Cash		883,623		883,623
Premiums and Agents' Balances in Course of Collection		14,953		14,953
Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due		112,631		112,631
Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments		60,516		60,516
Federal Income Tax Recoverable (Including \$28,875 Net Deferred Tax Asset)		28,875		28,875
Interest, Dividends, and Real Estate Income Due and Accrued		111,770		111,770
Non-Sufficient Funds		352	\$352	0
Total Assets		<u>\$7,275,237</u>	<u>\$352</u>	<u>\$7,274,885</u>

American West Insurance Company
Statement of Assets, Liabilities, and Surplus and Other Funds
December 31, 2002

Liabilities and Surplus

Losses	\$ 113,451
Loss Adjustment Expenses	28,720
Commissions Payable	12,918
Other Expenses	2,983
Taxes, Licenses and Fees	34,766
Federal Income Taxes	132,520
Unearned Premiums	400,416
Ceded Reinsurance Premiums Payable	217,255
Remittances and Items Not Allocated	<u>11,675</u>
 Total Liabilities	 \$ 954,705
 Surplus as Regards Policyholders	 <u>6,320,180</u>
 Total Liabilities and Surplus	 <u><u>\$7,274,885</u></u>

**American West Insurance Company
Underwriting and Investment Exhibit
For the Year Ending December 31, 2002**

Underwriting Income

Premiums earned		\$339,858
Less:		
Losses incurred	\$152,963	
Loss expenses incurred	36,673	
Other underwriting expenses incurred	<u>149,253</u>	
Total underwriting deductions		<u>338,889</u>
Net underwriting gain		\$ 969

Investment Income

Net investment income earned	<u>\$309,192</u>	
Net investment gain		309,192

Other income

Miscellaneous Income		<u>660</u>
Net income before federal taxes		\$310,821
Federal income tax incurred		<u>132,520</u>
Net income (loss)		<u>\$178,301</u>

American West Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 1998, through December, 31, 2002

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Capital and Surplus, December 31, Previous Year	\$5,113,356	\$11,024,352	\$9,127,221	\$9,190,105	\$9,770,715
Net Income	178,301	645,153	1,599,399	(630,173)	(1,428,883)
Net unrealized capital gains or (losses)		54,575	(975)	(55,670)	(14,015)
Change in net deferred income tax	28,875				
Change in nonadmitted assets	(352)	1,202	101,707	127,959	66,288
Change in provision for reinsurance					
Change in excess of statutory reserves over statement reserves			197,000	495,000	796,000
Surplus adjustments:					
Paid in	1,000,000				
Dividends to stockholders		(6,611,926)			
Net Change in Capital and Surplus for the Year	\$ 1,206,824	\$ (5,910,996)	\$ 1,897,131	\$ (62,884)	\$ (580,610)
Capital and Surplus, December 31, Current Year	\$6,320,180	\$5,113,356	\$11,024,352	\$9,127,221	\$9,190,105

American West Insurance Company
Analysis of Examination Changes
December 31, 2002

Description	Annual	Per	Surplus Change	
	Statement	Examination	Increase	Decrease
<u>Assets:</u>				
Premiums and Agents' Balances in Course of Collection	\$ -	\$ 14,953	\$ 14,953	
Premiums, Agents Balances and Installments Booked but Deferred and Not Yet Due	127,584	112,631		\$ (14,953)
Reinsurance Recoverable on Loss and Loss Adjustment Expense Payments	2,374	60,516	58,142	
<u>Liabilities:</u>				
Commissions Payable	-	12,918		(12,918)
Other Expenses	15,901	2,983	12,918	
Ceded Reinsurance Premiums Payable	159,113	217,255		(58,142)
Amounts Withheld or Retained by Company for Account of Others	11,675	-	11,675	
Remittance and Items Not Allocated	-	11,675		(11,675)
Total Examination Changes			<u>\$ 97,688</u>	<u>\$ (97,688)</u>
Capital and Surplus Per Annual Statement		\$ 6,320,180		
Capital and Surplus Per Examination		<u>6,320,180</u>		
Decrease Per Examination		<u>\$ -</u>		

COMMENTS ON FINANCIAL STATEMENTS

Bonds

At December 31, 2002, all bonds were investment grade.

A custodial agreement is maintained with Community First National Bank for the protection and safekeeping of securities owned by the Company. A review of the agreement determined that it did not contain the following provisions recommended in the NAIC's *Examiners Handbook* which require banks or trust companies to:

1. Indemnify the insurance company for any loss of securities of the insurance company in the bank or trust company's custody occasioned by the negligence or dishonesty of the bank or trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage of destruction.
2. In the event there is a loss of securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

It is recommended that the Company amend its custodial agreement with Community First National Bank to include all of the safeguards and controls required by the NAIC *Examiners Handbook*.

The Company calculates the amortization of bonds purchased at a discount to the call date rather than to the maturity date or call date which produces the lowest value. SSAP No. 26, paragraph 6, states that bonds containing call provisions shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst).

It is recommended that the Company amortize bonds purchased at a discount to the call date or maturity date whichever produces the lowest value.

Premiums and Agents' Balances in Course of Collection

The Company reported a \$14,953 balance due from an agent under the caption "Premiums, Agents Balances and Installments Booked but Deferred and Not Yet Due" (line 10.2, page 2). **It is recommended that the Company report premium amounts due on line 10.1 and amounts not yet due on line 10.2, page 2, of the Annual Statement.**

Losses and Loss Adjustment Expenses

This examination reviewed loss and loss adjustment expense reserves on a combined basis, gross of salvage, and subrogation. Ultimate loss and loss adjustment amounts were determined using primarily the Bornhuetter/Ferguson reserve estimation techniques. Due to the limited volume of data for the Company, the examination relied heavily upon data from the Company's parent in the reserve analysis.

Upon reviewing all projections made of the Company's reserves for unpaid losses and loss adjustment expenses as of December 31, 2002, it was determined that the reserves as reported

by the Company in its 2002 Annual Statement are within an acceptable range of possible outcomes. Consequently, the reserves reported by the Company have been accepted for purposes of this examination.

Commissions Payable

The Company reported commissions payable of \$12,918 in the liability for "Other Expenses" in its 2002 Annual Statement. **It is recommended that the Company report commissions payable on line 4, page 3, of the Annual Statement instead of under the liability for "Other Expenses."**

Advance Premiums

The Company did not report advance premiums on its non-standard auto business in its 2002 Annual Statement. The amount was deemed to be immaterial. **It is recommended that the Company report advance premiums on line 10, page 3, "Advance Premiums" in subsequent annual statements.**

Ceded Reinsurance Premiums Payable

The Company reduced reinsurance premiums payable to one reinsurer by a \$58,142 reinsurance recoverable on paid losses. **In accordance with SSAP 64, paragraph 3, and NAIC *Annual Statement Instructions*, it is recommended that the Company report reinsurance recoverable on paid losses on line 14 of page 2 rather than as an offset to "Ceded Reinsurance Premiums Payable."**

Remittances and Items Not Allocated

The Examiners reclassified premiums in suspense of \$11,675 under this caption from the caption "Amounts Withheld or Retained by Company for Account of Others." **It is recommended that the Company report premiums in suspense under "Remittances and Items Not Allocated" on page 3, line 15, of the Annual Statement.**

CONCLUSION

The financial condition of the Company, as of December 31, 2002, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$7,274,885</u>
Total Liabilities	\$ 954,705	
Surplus as Regards Policyholders	<u>6,320,180</u>	
Liabilities, Surplus and Other Funds		<u>\$7,274,885</u>

Since December 31, 1997, the Company's admitted assets have decreased \$12,089,424, its total liabilities have decreased \$8,638,889, and its surplus as regards policyholders has decreased \$3,450,535.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Pat White, CFE, Carole Kessel, CPA and Chief Examiner, and Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

David Weiss, CFE
Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company's directors, officers and key employees complete a conflict of interest statement on an annual basis and that the Company retain those statements for inspection for the years subject to examination.

It is recommended that the Company implement a procedure to provide for authorization of investment transactions by the Board of Directors or by an Investment Committee appointed by the Board of Directors in conformity with N.D. Cent. Code § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.

It is recommended that the Company and Nodak Mutual enter into a management services agreement and that the terms of the agreement comply with the standards contained in N.D. Cent. Code § 26.1-10-05(1).

It is recommended that the Company increase its fidelity bond coverage to the amount suggested by the NAIC.

It is recommended that the Company make the proper response in the Annual Statement to General Interrogatory No. 4.1 whenever an agent receives commissions for a substantial part (more than 20%) of new or renewal business.

It is recommended that the Company establish procedures to ensure that the Commissioner is notified in writing whenever proposed transactions with affiliates meet the filing requirements of N.D. Cent. Code § 26.1-10-05(2).

It is recommended that the Company amend its reinsurance agreements by adding the "entire contract" clause to all agreements to which the Company is a party.

It is recommended that the Company amend its custodial agreement with Community First National Bank to include all of the safeguards and controls required by the NAIC *Examiners Handbook*.

It is recommended that the Company amortize bonds purchased at a discount to the call date or maturity date whichever produces the lowest value.

It is recommended that the Company report premium amounts due on line 10.1 and amounts not yet due on line 10.2, page 2, of the Annual Statement.

It is recommended that the Company report commissions payable on line 4, page 3, of the Annual Statement instead of under the liability for "Other Expenses."

It is recommended that the Company report advance premiums on line 10, page 3, "Advance Premiums" in subsequent annual statements.

In accordance with SSAP 64, paragraph 3, and NAIC *Annual Statement Instructions*, it is recommended that the Company report reinsurance recoverable on paid losses on line 14 of page 2 rather than as an offset to "Ceded Reinsurance Premiums Payable."

It is recommended that the Company report premiums in suspense under "Remittances and Items Not Allocated" on page 3, line 15, of the Annual Statement.